

min file



FIRST WESTERN NATIONAL BANK

July 16, 1986

*orig returned
6/19/87*

IRREVOCABLE LETTER OF CREDIT NO. 109

Ms. Pam Grubaugh Littig
State Department of Natural Resources
Division of Oil, Gas, & Mining
355 West North Temple, Suite 350
Triad Center
Salt Lake City, Utah 84180-1230

RE: Kelmine Corporation
P. O. Box 1383
Moab, Utah 84532

Gentlemen:

We established our irrevocable letter of credit in your favor for the account of Kelmine Corporation to the extent of Eighty Five Thousand Dollars and NO/100 (\$85,000.00), available by your draft(s) at First Western National Bank, Main & 300 South, P. O. Box 249, Moab, Utah on demand to be accompanied by the following documents:

Original Irrevocable Letter of Credit No.

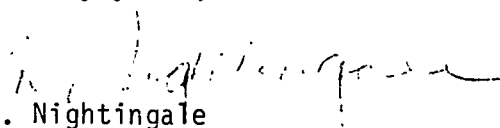
All drafts must be marked "Drawn under Letter of Credit No. 109".

This credit expires in five years on July 21, 1991.

This credit is subject to the Uniform Customs and Practice for Documentary Credits (1974 Revision) International Chamber of Commerce Document No. 290.

We hereby agree with the drawers, endorsers, and bonafide holders of drafts drawn under and in compliance with the terms of this credit that such drafts will be duly honored upon due presentation to the drawee.

Very truly yours,


I. D. Nightingale
President

IDN:mk

NONCOAL
(February 1986)

M/037/032

State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining
3 Triad Center, Suite 350
355 West North Temple
Salt Lake City, Utah 84180-1203
(801) 538-5340

COLLATERAL BONDING AND INDEMNITY AGREEMENT

THIS COLLATERAL BONDING AND INDEMNITY AGREEMENT entered into by and between Kelmine Corporation (hereinafter referred to as "Operator") and the Utah Division of Oil, Gas and Mining (hereinafter referred to as "Division"),

W I T N E S S E T H

WHEREAS, the Operator has obtained Program Permit No. ACT/037/032 (hereinafter referred to as "Permit") from the Division to conduct mining and reclamation activities at the Lisbon Valley Copper Mine in San Juan County, Utah, as a mine under the Utah Mined Land Reclamation Act, Utah Code Annotated, 40-8-1, et seq, 1953, as amended ("Act") and implementing regulations; on the disturbed areas designated in Exhibit A; and

WHEREAS, the Operator wishes to obtain a bond under 40-8-14(3); and

WHEREAS, the Operator has provided an irrevocable letter of credit issued by First Western National Bank of Utah (Exhibit B), naming the Division as Beneficiary, as collateral to secure this Collateral Bonding and Indemnity Agreement; and

COLLATERAL BONDING AND INDEMNITY AGREEMENT - NONCOAL

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the Operator does hereby agree to be held and firmly bonds to the Division for the sum of 85,000 (1987 dollars) for the timely performance of reclamation responsibilities for Permit No. ACT/037/032 in lawful money of the United States. By the submission of this Irrevocable Letter of Credit will and truly binds itself, its successors and assigns, jointly and severally, by the conditions of this Agreement.

The conditions of the above obligations are such that:

1. The Operator shall perform all duties and fulfill all requirements applicable to mining and reclamation as set forth in the Act, and regulations adopted pursuant to the Act and the conditions of Permit No. ACT/037/032 issued by the Division.
2. The liability under this Agreement is conditioned upon successful reclamation of the permit area as provided in the Mining and Reclamation Plan for Permit No. ACT/037/032 for a period of time and in the manner specified in the Act and regulations adopted pursuant thereto as amended from time to time, and the conditions set forth in Permit No. ACT/037/032 issued by the Division.

3. The Operator does hereby jointly and severally agree to indemnify and hold the Division harmless from any claim, demand, liability, cost, charge or suit brought by a third party, as a result of the Operator's failure to abide by the terms and conditions of the Mining and Reclamation Plan as set forth in Permit No. ACT/037/032 and from any failure to comply with the terms of this Agreement.
4. Upon successful completion of part or all of the obligations secured hereby, the Operator may petition the Division for a final release of part or all of the obligations under this Agreement. Upon such petition, the Division shall timely conduct an inspection to ascertain whether the duties and obligations of the Operator under the Act, regulations adopted pursuant thereto and Permit No. ACT/037/032 have been fulfilled. If such duties and obligations have been fulfilled, the Division shall release the Operator from part or all of its obligations under this Agreement and shall file notice of such release of collateral held by the Division.
5. This agreement shall be reviewed periodically by the Division, or reviewed upon petition by the Operator, in accordance with the Act and implementing regulations and

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the amount of liability under this agreement may be adjusted upon written agreement between the Operator and the Division where it is clearly established that the cost of future reclamation has materially changed.

6. This Agreement may be terminated upon ninety (90) days prior written notice to the Division if terminated by the Operator or upon ninety (90) days written notice to the Operator if terminated by the Division. Upon such written notification, the Operator will have ninety (90) days to obtain an alternate form of bond to secure reclamation obligations for Permit No. ACT/037/032 in the same amount as stated in this Agreement or amendments thereto.
7. Failure to provide a satisfactory alternative form of bond will result in the complete cessation of all mining operations and the complete reclamation of all disturbed areas within the Lisbon Valley Copper Mine permit area.
8. Any breach of the provisions of paragraph #8 of this Agreement will result in the payment of \$85,000 (bond amount) liquidated damages to the Division.
9. This Agreement will be governed and interpreted according to Utah law.

COLLATERAL BONDING AND INDEMNITY AGREEMENT - NONCOAL

SO AGREED this 25th day of July, 1986.

KELMINE CORPORATION

By [Signature] Pres.
Corporate Officer - Position

STATE OF UTAH, DEPARTMENT OF
NATURAL RESOURCES, DIVISION OF
OIL, GAS AND MINING

By [Signature]
Gregory P. Williams
Board Chairman

APPROVED AS TO FORM:

[Signature]
Assistant Attorney General

STATE OF COLORADO)
COUNTY OF DENVER) ss:

On the 25th day of July, 1986, personally appeared
before me Mr. Charles O. Keller and _____ who
being by me duly sworn did say that he/~~she~~, the said Mr. Charles
O. Keller is the President of _____
Kelmine Corporation and said instrument was signed in behalf
of said corporation by authority of its bylaws or a resolution of
its board of directors and said Mr. Charles O. Keller
and _____ duly acknowledged to me that said
corporation executed the same.

COLLATERAL BONDING AND INDEMNITY AGREEMENT - NONCOAL

Maxine Cochran

Notary Public

Residing at: _____

My Commission Expires:

My Commission Expires August 23, 1987
4801 York St., Denver, CO 80216

STATE OF Utah)
) ss:
COUNTY OF Salt Lake)

On the 2nd day of Sept, 1986, personally appeared before me Mr. Gregory P. Williams, who being by me duly sworn did say he, the said Mr. Gregory P. Williams is the Board Chairman of the Board of Oil, Gas and Mining, Department of Natural Resources, state of Utah, and he duly acknowledged to me that said Board executed the foregoing document by authority of law on behalf of the state of Utah.

Marjorie L. Anderson

Notary Public

Residing at: Salt Lake City, Utah

My Commission Expires:

July 24, 1989

EXHIBIT A

To Collateral Bonding and Indemnity Agreement
dated July 25, 1986 between State of Utah,
Department of Natural Resources,
Division of Oil, Gas and Mining,
and Kelmine Corporation (Operator)

The legal description of the area to be disturbed
located in San Juan County, Utah is:

Sections 25, 26 and 36,
Township 30 South,
Range 25 East, SLBM,
San Juan County, Utah